Report

of the

Examination of

Green County Mutual Insurance Company

Monroe, Wisconsin

As of December 31, 2002

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 12, 2003

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2002, of the affairs and financial condition of

GREEN COUNTY MUTUAL INSURANCE COMPANY
MONROE, WISCONSIN

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1998 as of December 31, 1997. The current examination covered the intervening time period ending December 31, 2002, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company in February 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Mutual Insurance Company of the Town of Jefferson. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were two amendments to the articles of incorporation and no amendments to the bylaws. The first changed the principal location to Monroe, Wisconsin and the other changed the number of directors from nine to seven.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Dane, Grant, Green, Iowa, Jefferson, Lafayette, Rock and Walworth

The company is currently licensed to write property, including windstorm and hail and non-property insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one year with premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through 28 agents, six of whom are directors of the company. The company classifies its agents into two categories -- captive agents are either directors or employees of the company or sell only the company's policies; independent agents sell policies for other insurance companies as well. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
Captive Agents All Business	10 %
Independent Agents All Business	15 %

Agents have authority to adjust losses up to $5,000. Losses in excess of this amount are adjusted by 2 directors or an outside adjuster. Director/Adjusters receive $10.00 for each loss adjusted plus $.365 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Craig Shager*	Realtor	Brodhead, WI	2006
Roger Sullivan	Farmer	Monroe, WI	2005
Larry Klassy*	Farmer	Monticello, WI	2004
Steve Ruegsegger*	Electrician	Monticello, WI	2004
Donald E. Moe*	Insurance Agent	Monroe, WI	2006
Robert Bump*	Farmer	Albany, WI	2005
Lloyd Burkhalter*	Retired/Insurance Agent	Monticello, WI	2004

* Directors who are captive agents are identified with an asterisk.

Members of the board currently receive $35.00 for each meeting attended or $65.00 if an all day meeting is required and $.365 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	Annual Salary
Robert Bump	President	$ 2,506
Larry Klassy	Vice-President	1,751
Donald E. Moe	Secretary	41,233
Craig Shager	Treasurer	7,028*
Shirley Goodman	Manager	28,619

* Estimated annual salary because he is a new director.

The above salaries include commissions as well as meeting fees.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees at the time of the examination. A comment on the Adjusting Committee is found in the “Claims Adjusting” section of the Summary of Examination Results.

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2002	$417,954	$325,627	1,320	($15,954)	$1,527,051	$993,363
2001	371,798	442,770	949	(105,154)	1,512,429	1,094,644
2000	373,336	240,025	939	79,720	1,641,459	1,240,369
1999	395,967	258,451	935	48,744	1,459,502	1,088,686
1998	291,777	324,965	922	(99,884)	1,468,012	1,050,831

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Gross	Ratios Net
2002	$889,343	$550,966	$993,363	89.5%	55.5%
2001	659,188	384,222	1,094,644	60.2	35.1
2000	648,595	380,284	1,240,369	52.3	30.7
1999	632,703	386,140	1,088,686	58.1	35.5
1998	602,656	309,495	1,050,831	57.4	29.5

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
2002	$325,627	$167,312	$417,954	78%	30%	108%
2001	442,770	131,102	371,798	119	34	153
2000	240,025	132,886	373,336	64	35	99
1999	258,451	137,789	395,967	65	36	101
1998	324,965	135,414	291,777	111	44	155

During the period of the examination the company’s surplus has decreased $98,668 or 9.9% of the current surplus balance. The company has increased the number of policyholders from 922 in 1998 to 1,320 in 2002. The increase is attributable to one new independent agency that started selling the company’s policies in 2002. The new agency must send in photographs of the business being insured along with the application and the company reviews the pictures and will send out one of two directors for a site visit if it is determined to be necessary. Admitted assets and liabilities have increased mostly due to the increased business generated from the additional policies. The company was profitable for two out of the five years under examination; in the past 11 years there have been two years with underwriting gains and four years with net income. The current years' net loss was $15,954. Surplus fell below $1 million for the first time since 1996.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2003
Termination provisions:	Either party may terminate this contract as of any subsequent January 1, by giving to the other party at least 90 days advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Excess of Loss
	Lines reinsured:	All liability – non property
	Company's retention:	$500 each and every occurrence
	Coverage:	100% of each loss above company retention subject to policy limits of $1,000,000 per occurrence single limit, $1,000,000 split limit and $5,000 for medical per person and $25,000 per accident
	Reinsurance premium:	75% of net liability premiums written
2.	Type of contract:	Class B First Surplus Quota Share
	Lines reinsured:	All property business
	Company's retention:	When the company’s net retention is $400,000 or more, the company may cede up to $800,000. When the net retention is less than $400,000, the company may cede up to 50% of such risk
	Coverage:	The pro rata share of each and every loss including LAE corresponding to the amount of the risk ceded
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded
	Ceding commission:	15% sliding scale Min/Max = 15/35%
3.	Type of contract:	Class C-1 Excess of Loss First Layer
	Lines reinsured:	All property lines

	Company's retention:	$30,000 per loss plus $30,000 Annual Aggregate Deductible
	Coverage:	100% of excess of retention up to $70,000
	Reinsurance premium:	Current rate 8.41%, minimum premium of $40,000
4.	Type of contract:	Class C-2 Excess of Loss Second Layer
	Lines reinsured:	All property business
	Company's retention:	$100,000
	Coverage:	$300,000 excess of company retention
	Reinsurance premium:	4% of premiums, minimum premium $19,000
5.	Type of contract:	Class D/E Stop Loss
	Lines reinsured:	All business written by the company
	Company's retention:	75% of company’s net premiums written, minimum retention of $385,000
	Coverage:	100% of losses including LAE are in excess of the retention
	Reinsurance premium:	6.5% of net premiums written, minimum premium of $33,000

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2002. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Green County Mutual Insurance Company

Statement of Assets and Liabilities

As of December 31, 2002

Assets	**Ledger**	**Nonledger**	**Not Admitted**	**Net Admitted**
Cash Deposited in Checking Account	$ 95,812			$ 95,812
Cash Deposited at Interest	750,368			750,368
Stocks or Mutual Fund Investments (at Market)	523,759			523,759
Premiums and Agents' Balances and Installments:				
In Course of Collection	17,904		2,666	15,238
Deferred and Not Yet Due	129,459			129,459
Investment Income Accrued		6,331		6,331
Reinsurance Recoverable on Paid Losses and LAE	5,391			5,391
Electronic Data Processing Equipment	693			693
Fire Dues Recoverable				
Furniture and Fixtures	1,653		1,653	
TOTALS	$1,525,039	$6,331	$4,319	$1,527,051

Green County Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2002

Liabilities and Surplus

Net Unpaid Losses	$ 64,587
Unpaid Loss Adjustment Expenses	770
Commissions Payable	3,206
Fire Department Dues Payable	1,453
Unearned Premiums	397,969
Reinsurance Payable	54,022
Other Liabilities:	
Nonexpense Related:	
Premiums Received in Advance	11,681
TOTAL LIABILITIES	533,688
Policyholders' Surplus	993,363
TOTAL	$1,527,051

Green County Mutual Insurance Company
Statement of Operations
For the Year 2002

Net Premiums and Assessments Earned		$417,954
Deduct:		
Net Losses Incurred	312,752	
Net Loss Adjustment Expenses Incurred	12,875	
Other Underwriting Expenses Incurred	167,312	
Total Losses and Expenses Incurred		492,939
Net Underwriting Gain (Loss)		(74,985)
Net Investment Income:		
Net Investment Income Earned	40,980	
Net Realized Capital Gains	(6,784)	
Total Investment Income		34,196
Other Income:		
Policy Fees	18,566	
Installment Fees	6,269	
Total Other Income		24,835
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes		(15,954)
Net Income (Loss) Before Federal Income Taxes		(15,954)
Net Income (Loss)		($15,954)

Green County Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2002

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2002	2001	2000	1999	1998
Surplus, beginning of year	$1,094,644	$1,240,369	$1,088,686	$1,050,831	$1,092,031
Net income	(15,954)	(105,154)	79,720	48,744	(99,884)
Net unrealized capital gains or (losses)	(84,056)	(41,690)	71,650	(9,817)	61,541
Change in non-admitted assets	(1,271)	1,119	313	(1,072)	(2,857)
Surplus, end of year	$993,363	$1,094,644	$1,240,369	$1,088,686	$1,050,831

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Item	Increase	Decrease	
Policyholders' Surplus per December 31, 2002, Annual Statement			$993,363
Net Unpaid Losses	$	$19,395	
Total	$	$19,395	
Decrease to Surplus per Examination			($ 19,395)
Policyholders' Surplus per Examination			$973,968

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Underwriting — It is recommended that the company establish written inspection guidelines for its inspectors to follow when they conduct inspections.

   Action— Noncompliance, see comments in the summary of current examination results.

2. Underwriting — It is recommended that the company document the results of the inspections conducted on renewal business.

   Action— Compliance.

3. Underwriting — In an effort to mitigate its underwriting losses, the company should consider performing some detailed loss analysis over an extended time period. Some of the ways the company may consider analyzing its losses are by size of premium, size of policy, type of policy, location, and by agent.

   Action— Partial compliance, see comments in the summary of current examination results.

4. Investments — It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

   Action— Compliance.

5. Investments — It is recommended that the company obtain and review prospectuses for all investments before it purchases them.

   Action— Compliance.

6. Investments — It is recommended that the company obtain and keep with its records prospectuses for its current investments.

   Action— Compliance.

7. Investments — It is recommended that the company develop a written plan to bring its investments into compliance with the new investment rule.

   Action— Compliance.

8. Net Unpaid Losses — It is recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

   Action— Noncompliance, see comments in the summary of current examination results.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have not been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code. It is recommended that the company file biographical data relating to company officers and directors pursuant to s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its intermediary-agents. The contracts include language indicating the intermediary-agent will represent the company's interests "in good faith." In reviewing the company listing of intermediary-agents with the Office of the Commissioner of Insurance (OCI), it was noted that the company had one director who was not listed nor licensed to sell liability insurance but was selling liability insurance, and one intermediary-agent that no longer had authorization to write business according to the company but the company did not report the termination to this office. It is recommended that the company report all intermediary-agent appointments and terminations with the Office of the Commissioner of Insurance, according to the procedures established by the office and pursuant to ss. Ins 6.57 (1) and (2), Wis. Adm. Code. It is recommended that the company develop a process to check and accept business only from licensed intermediary-agents pursuant to s. 628.05(2), Wis. Stat.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted. In 2000 and 2003, the Secretary's salary was increased and the Secretary did not abstain from the vote. A director was hired for $15 per hour to help with reinsurance ceding and the director did not abstain from this vote. It is recommended that when a conflict of interest exists those directors who have a conflict abstain from voting, pursuant to ss. 612.18, and 611.60, Wis. Stats.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Combined Professional and Directors and Officers Liability	$1,000,000 Professional $1,000,000 Directors and Officers $1,000,000 aggregate limit
Insurance Agents and Brokers Liability (other than Don Moe Agency)	$1,500 deductible per claim $1,000,000 limit claim and aggregate
Insurance Agents and Brokers Liability (Don Moe Agency)	$1,500 deductible per claim $1,000,000 limit claim and aggregate
Fidelity Bond	$100,000 with $2,500 deductible
Workers Compensation	Statutory limit
Business Owners Special Property	Contents $13,000 with $500 deductible $5,000 Per Person Medical Expense $300,000 Fire Legal Liability $1,000,000 Liability and Medical Expense

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business written by the company.

The company does not have a written inspection procedure for both new and renewal business as recommended in the last examination. The company will give the writing agent an analysis of the coverage prior to renewal. This report is then updated by the agent with new information. Examiners viewed a completed form. It was noted that the information was updated, but there were no inspection guidelines for the agent to use in updating the information. It is again recommended that the company establish formal written inspection guidelines for its agents to follow when they conduct inspections.

The company has a new agency that is writing a substantial amount of new business for the company. The company uses pictures to judge if this agency's risks require an independent inspection. Considering the company's underwriting results (9 years of net underwriting losses in the past 11 years), it appears the company's historical underwriting process needs improvements. Since the company's policy count increased by 39% (over 370 policies) in 2002, due largely to the new agency, the company's historical underwriting process may not be satisfactory to properly evaluate this much new business. It is recommended that the company design and carry out an inspection program for new business written in 2002 and following, with inspections performed by someone independent of the risk under consideration.

The last examination suggested that the company perform a detailed loss analysis over an extended time period due to continual underwriting losses suffered by the company. The company responded stating that it had complied with this suggestion. However, the company could not provide any written documents to support its compliance nor did the board minutes mention a report being presented. The company continued to suffer underwriting losses four out of the five years under examination. The loss analysis and subsequent written report should be presented to the board and noted in the board minutes, and be prepared by an employee/director who writes less then 10% of the company's business. It should identify the time period, the author, calculate loss ratios by policy types and by agent/agency, geographic region, and current results should be compared to previous results to identify potential trends. It is recommended that the company annually perform a detailed loss analysis; the report be presented to the board of directors, and the written report be retained by the company.

In reviewing the 10 largest risks, it was discovered that the company did not cede any portion of one the risks, through clerical error. Pursuant to s. Ins 6.72, Wis. Adm. Code, the company is to retain no more than 3 times the average policy or 0.0025 percent of the insurance in force. Because the policy was greater then the calculation the company was in violation of the code, it is recommended that the company comply with s. Ins 6.72, Wis. Adm. Code, regarding maximum risk retention. Also, during the review of the 10 largest risks, it was noted the company did not update its ceding slips in a timely manner when the insured property value changed at renewal. It is recommended that the company review of all its policies and correct or issue ceding slips for its policies as required, and the company should resubmit ceding slips in a timely manner as insured amounts change.

Claims Adjusting

The company did not appoint an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses. In practice, the entire board acted as the adjusting committee each year under examination. The company did not appoint an adjusting committee, according to its minutes, for the years 1999, 2002 or 2003. It is recommended that the board annually appoint an adjusting committee pursuant to s. 612.13 (4), Wis. Stat.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2002.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has not developed a disaster recovery plan. It is recommended that the company develop a written disaster recovery plan.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements. It was noted during the review of certificates of deposits that one to three directors were listed as co-owners on some of the certificates of deposits. It is recommended that the company hold its investments in its own name pursuant to s. 610.23, Wis. Stat.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as “Type 2”) provided that the town mutual has a sufficient amount of lower risk investments (referred to as “Type 1”). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$833,688
2.	Liabilities plus 33% of gross premiums written	593,483
3.	Liabilities plus 50% of net premiums written	575,483

4.	Amount required (greater of 1, 2, or 3)	833,688
5.	Amount of Type 1 investments as of 12/31/2002	918,090
6.	Excess or (deficiency)	84,402

The company has sufficient Type 1 investments.

The company has been granted permission to hold 35% of net admitted assets in common stocks and like securities. It has also been granted permission to hold Wisconsin Reinsurance Common stock and NAMIC stock.

ASSETS

Cash and Invested Cash **$**846,180

The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	$ 95,812
Cash deposited in banks at interest	750,368
Total	$846,180

Cash deposited in banks subject to the company's check and withdrawal consists of two accounts maintained in two banks. Verification of checking account balances was made by obtaining bank statements for the depositories and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 22 deposits in 16 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2002 totaled $30,052 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2.500% to 5.67%. Accrued interest on cash deposits totaled $5,579 at year-end.

Stocks and Mutual Fund Investments **$**523,759

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2002. Stocks owned by the company are located in a safe deposit box at a bank.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2002 on stocks and mutual funds amounted to $20,177 and were traced to cash receipts records. Accrued dividends of $752 at December 31, 2002, were checked and allowed as a non-ledger asset.

Agents' Balances or Uncollected Premiums **$**144,697

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Investment Income Due and Accrued **$**6,331

Interest due and accrued on the various assets of the company at December 31, 2002, consists of the following:

Cash Deposited at Interest	$5,579
Stocks and Mutual Funds	752
Total	$6,331

Subsequent receipt of interest accrued verified this asset.

Reinsurance Recoverable on Paid Losses **$**5,391

The above asset represents recoveries due to the company from reinsurance on losses which were paid on or prior to December 31, 2002. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$**693

This asset consists of $693 of computer equipment owned by the company at December 31, 2002. The amount reported by the company was not traced to depreciation schedules. An analysis of the net assets was performed, that indicated that some depreciation was applied. However, the company does not have depreciation schedules for this asset or Equipment, Furniture, and Supplies (see next account). It is recommended that the company develop depreciation schedules for Electronic Data Processing Equipment and Equipment, Furniture and Supplies or expense these items.

Equipment, Furniture, and Supplies **$**1,653

This asset consists of $1,653 of furniture and fixtures owned by the company at December 31, 2002. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted. See Electronic Data Processing Equipment above for recommendation on developing a depreciation schedule.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$**83,981

This liability represents losses incurred on or prior to December 31, 2002, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	**Examiners' Development**	**Difference**
Incurred But Unpaid Losses	$94,932	$111,302	($16,370)
Less:			
Reinsurance Recoverable on Unpaid Losses	30,346	27,321	3,025
Net Unpaid Losses	$64,586	$ 83,981	($19,395)

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2002. To the actual paid loss figures was added an estimated amount for those 2002 and prior losses remaining unpaid at the examination date, if any. The loss reserve was increased and surplus decreased for the deficiency in reserving. The deficiency came about because the company used only 2002 claims to establish the reserve; however the company had open claims dating back to 1999 that were not included in the reserve. The company believes some of these claims will be closed either as paid or without payment, but had no evidence to support this assertion, since the company had not contacted the claimants. The examiners therefore included these old outstanding claims in their development.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly, but that payments are not made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

The examination noted that the company still routinely allows claims to remain open for a number of years without settlement typically due to the company waiting for information from the claimant or for the insured to repair covered damages. This practice may be an unfair settlement practice by failure to initiate and conclude claim investigations in a reasonable period of time. It also increases the company's exposure to additional loss sustained on damaged and unrepaired property. It is again recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

Unpaid Loss Adjustment Expenses **$**770

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2002, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to use $10 per adjuster for unpaid claims adjusted by company adjusters and $100 for unpaid claims adjusted by outside adjusters.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums **$**397,969

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$**54,022

This liability consists of amounts due to the company's reinsurer at December 31, 2002, relating to transactions which occurred on or prior to that date.

Class A Liability	$29,922
Class C-1	8,500
Class C-2	5,700
Class D/E	9,900
Total	$54,022

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Fire Department Dues Payable **$**1,453

This liability represents the fire department dues payable at December 31, 2002.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Commissions Payable **$**3,206

This balance represents amounts payable on premiums receivable. The balance was determined to be reasonably stated.

Premiums Received in Advance **$**11,681

This liability represents premiums received in advance by the company prior to the effective date of coverage at December 31, 2002. Supporting records and cash receipts verified this item. During the analysis of this account, it was determined to be overstated by $2,366 because some of the amounts included were mid term payments. No adjustment was made due to the materiality of the error, however, a recommendation is being made. It is recommended that the company include as “Advance Premiums” only premiums for policies that become effective subsequent to the receipt of the premium payment, and not include mid-term policies pursuant to Annual Statement Instructions.

Accounts Payable **$0**

During subsequent liabilities testing, it was discovered that the company should have accrued for personal property taxes and an advertising bill at year end 2002. Since the amount was deemed immaterial, no adjustment was made to surplus. However, a recommendation to accrue for such liabilities will be made in this report. It is recommended that the company accrue for unrecorded liabilities at year-end according to the Annual Statement Instructions.

V. CONCLUSION

Green County Mutual Insurance Company is a town mutual insurer covering eight counties. The company has been in business since 1873.

During the period of examination, the company's assets increased 4% from $1,468,012 in 1998 to $1,527,051 in 2002. Liabilities have increased 28% from $417,181 in 1998 to $533,688 in 2002. Surplus per the examination decreased 8% from $1,050,831 in 1998 to the adjusted balance of $973,969 in 2002. Policy counts have increased from 922 in 1998 to 1,320 in 2002. The company has suffered net losses three out of the five years under examination. The loss in 2002 was $15,954.

Actions the company has taken to improve results include increasing premium rates. The company added a large agency in 2002, which also helped to increased business written by the company. This is a concern for the examiner, due to the company's past underwriting history of losses and not having a well defined inspection program. The examination resulted in sixteen recommendations. The recommendations are listed in the next section of this report. Some of these recommendations include annually appointing an adjusting committee, developing forms and procedures for renewal inspections by agents, developing an inspection program for new business written since 2002, and communicating with claimants on old claims until they are closed.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records — It is recommended that the company file biographical data relating to company officers and directors pursuant to s. Ins 6.52, Wis. Adm. Code.

2. Page 15 - Corporate Records — It is recommended that the company report all intermediary-agent appointments and terminations with the Office of the Commissioner, according to the procedures established by the office and pursuant to ss. Ins 6.57 (1) and (2), Wis. Adm. Code.

3. Page 15 - Corporate Records - It is recommended that the company develop a process to check and accept business only from licensed intermediary-agents pursuant to s. 628.05(2), Wis. Stat.

4. Page 16 - Conflict of Interest — It is recommended that when a conflict of interest exists those directors who have a conflict abstain from voting, pursuant to ss. 612.18 and 611.60, Wis. Stats.

5. Page 16 - Underwriting Cycle — . It is again recommended that the company establish formal written inspection guidelines for its agents to follow when they conduct inspections

6. Page 17 - Underwriting Cycle — It is recommended that the company design and carry out an inspection program for new business written in 2002 and following, with inspections performed by someone independent of the risk under consideration.

7. Page 17 - Underwriting Cycle — It is recommended that the company annually perform a detailed loss analysis; the report be presented to the board of directors, and the written report be retained by the company.

8. Page 18 - Underwriting Cycle — It is recommended that the company comply with s. Ins 6.72 Wis. Adm. Code, regarding maximum risk retention.

9. Page 18 - Underwriting Cycle — It is recommended that the company review of all its policies and correct or issue ceding slips for its policies as required, and the company should resubmit ceding slips in a timely manner as insured amounts change.

10. Page 18 - Claims Adjusting — It is recommended that the board annually appoint an adjusting committee pursuant to s. 612.13 (4), Wis. Stat.

11. Page 20 - Disaster Recovery Plan — It is recommended that the company develop a written disaster recovery plan.

12. Page 20 - Invested Assets — It is recommended that the company hold its investments in its own name pursuant to s. 610.23, Wis. Stat.

13. Page 23 - Electric Data Processing Equipment — It is recommended that the company develop depreciation schedules for Electronic Data Processing Equipment and Equipment, Furniture and Supplies or expense these items.

14. Page 25 - Net Unpaid Losses — It is again recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

15. Page 26 - Premiums Received in Advance — It is recommended that the company include as "Advance Premiums" only premiums for policies that become effective subsequent to the receipt of the premium payment, and not include mid-term policies pursuant to the Annual Statement Instructions.

16. Page 26 - Accounts Payable — It is recommended that the company accrue for unrecorded liabilities at year-end according to the Annual Statement Instructions.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Bill Genne of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge